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STATE FOR WHA/BSC AND EB/TPP
TREASURY FOR OASIA FOR JASPER HOEK
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SUBJECT: URUGUAY VOICES DEEP DISSATISFACTION AT MERCOSUR
MINISTERIAL IN BRASILIA

REF: MONTEVIDEO 1097 AND PREVIOUS

Classified By: Ambassador Frank Baxter for reasons 1.4(b)
and (d).

[¶1.](#) (C) Summary: At the Brasilia Mercosur ministerial, Economy Minister Astori publicly expressed some of the strongest criticism of Mercosur to date by a GOU official. Referring to Mercosur's situation as "dreadful," Astori called on partner states to take action on two issues: 1) the Argentine blockade of bridges to Uruguay, now entering its second summer, and 2) allowing the smaller members to negotiate bilateral FTAs. Without setting a fixed deadline to get these issues resolved, Astori hoped that Paraguay's upcoming pro temp presidency would herald a "re-direction." The GOU would "take measures" if this was not the case, he added (Note: This is the closest a GOU official has come to threatening withdrawal from the bloc. End Note.) Astori's comments mirrored President Vazquez's earlier comments when, calling on his experience as a physician, he had said that "sometimes, it is better to cut a limb to save the body." Two days after Astori's declarations, Argentina's Economy Minister Miceli fired back, saying that the Uruguayans "want special treatment (from Mercosur) and an agreement with the U.S. (...) We will not give them anything, but we will not throw them out either." All is not well in Mercosur. Meanwhile, President Chief of Staff Fernandez told the Ambassador the GOU looks forward to signing a TIFA in January and begin FTA negotiations by mid-year. End Summary.

[¶2.](#) (U) The GOU took the offensive at the Brasilia Common Market Group Ministerial Summit meeting (ministerial level), represented by ForMin Gargano and EconMin Astori. Both ministers strongly complained about the blockade of bridges leading into Uruguay by Argentine protestors, and about the lack of action by the GOA. They lamented Brazil's reluctance to get involved. Astori also pushed hard for a definition by Mercosur's larger members on Uruguay's demand that the smaller partners be allowed to undertake extra-zone bilateral trade negotiations independently.

[¶3.](#) (U) In a press interview after the Summit, Astori described the situation as extremely tense and Mercosur "in a dreadful state." He said the GOU had raised its concerns very strongly and would not tolerate an endless continuation of these ongoing problems. "Apart from making a very strong case," Astori said, "we came to Brasilia to make proposals."

He outlined the GOU's proposal as "the possibility for member countries to negotiate tariff preferences." "We are not stepping down from this proposal," Astori stressed, "so we call for everyone to look for ways to deal with it."

14. (U) For the first time, Astori set a timeframe for a Mercosur reply to Uruguay's concerns. While not specifying an exact date, he talked about a maximum of six months for Mercosur to allow individual extra-regional trade agreements.

"I am not announcing a future step, but we cannot continue like this. We have to see significant changes in a relatively short term," he said. Astori mentioned that Paraguay would soon start its pro-tempore presidency, and noted that the GOU and the GOP worked well together. "I am not asking Paraguay for an exact date, but during the first half of 2007 we should be seeing a re-direction (of Mercosur)," he warned.

15. (U) Just a few days earlier, in a full-page interview with the leading Uruguayan business weekly, President Vazquez had threatened not to participate in the upcoming Mercosur Presidential Summit in January. Vazquez complained about the bloc's growing difficulties and said he was ready to take the "necessary steps in foreign policy to allow the country to grow." Using an analogy from his medical background, Vazquez stated that "while not agreeable, sometimes amputating a limb is best for the body." He insisted that Uruguay will have to decide upon its next steps in the short term, because "one cannot just die with eyes open." Vazquez called for an "open regionalism," a formula he has used repeatedly to refer to the freedom for each member to negotiate bilateral trade agreements.

16. (U) On December 18, in a tit-for-tat with Astori, Argentina's Economy Minister Miceli took a hard shot at the

GOU's position. Miceli was reported in the Uruguayan press as saying that Uruguay's problem is that "it does not know what to do, it wants special treatment on the one side, but wants an FTA with the U.S. on the other." She added that "we will not give them anything (in Mercosur), but we are not going to throw them out either."

17. (U) Meanwhile, aside from its vocal opposition to perceived inequities within Mercosur, the GOU is taking concrete steps. The GOU announced it will raise tariffs on Argentine imports produced in four provinces that enjoy preferential tax treatment and subsidies. The GOA reacted harshly against the measure at the recent ministerial summit and defended its mechanism on the grounds that it complies with WTO rules. After the summit, Astori admitted that the GOU's measures may be controversial, but that they were a reaction to Argentina's. "This is how Mercosur is nowadays," Astori said, "we cannot move forward like this, with a partner that violates the rules and another partner that responds to that violation in a way that maybe also violates the rules."

18. (U) The relationship between the presidents is also tense.

Argentine President Kirchner and Vazquez have not spoken in months, and Kirchner did not meet with Vazquez when he flew in for a few hours in November to attend the Ibero-American Summit in Uruguay. Brazil's President Lula shunned the Montevideo Summit altogether, allegedly due to election fatigue, but had announced he would come for a special visit in early December. A last-minute cancellation of this visit has angered Vazquez to the point that it is rumored he will shun the January Mercosur Presidential in Brazil (Note: Press reports indicate that Bolivia will formally request full Mercosur membership at this Summit. End Note). The GOU complains that Brazil is not performing its leadership role in Mercosur and strongly criticizes the GOB for refusing to endorse a Mercosur solution to the dispute over the paper mills and the bridges blockade. While Brazil voted for the concession of the World Bank's loan to the Finnish paper mill Botnia, its refusal to get involved in the dispute favors Argentina, the stronger of the two countries in the conflict.

¶9. (U) It has been a full year since the first blocking of the bridges by Argentine "environmentalists," and rough estimates indicate that Uruguay has already lost about \$400 million in revenues and 120,000 tourists. While several rulings over the past year have favored Uruguay's position, the GOA has not moved to prevent the blockade of the bridges.

The International Court in The Hague denied Argentina's request to suspend construction of the pulp mills, and a Mercosur panel ruled that Argentina's lack of action on the blockades was incompatible with Mercosur's guarantees of free transit of goods and services. Finally, the World Bank recently approved a loan for the construction of the Botnia paper mill. In late November, the GOU filed a case against Argentina in The Hague, requesting a ruling to force the GOA to enforce free transit through the bridges. That hearing began in The Hague on December 18.

¶10. (U) The paper mill dispute is symptomatic of the incapacity of Mercosur to solve its own problems, and of the imbalance between large and small countries in the bloc. While another paper mill, Spanish Ence, announced it would relocate its plant within Uruguay, the announcement was made from the Casa Rosada (President Kirchner's presidential office). This played quite badly in Uruguay, where it was perceived as a signal to foreign investors that one has to obtain Argentina's permission in order to invest in Uruguay.

¶11. (C) On December 18, the Ambassador called on Presidential Chief of Staff Gonzalo Fernandez. Fernandez told the Ambassador that, amidst all of the turmoil in Mercosur, Uruguay remains committed to moving ahead on an FTA with the U.S. Fernandez looked forward to signing the TIFA in January, and to "FTA negotiations by the middle of next year." This date tracks with Astori's demand for permission to negotiate within six months.

¶12. (SBU) Comment: In late October, a GOU inter-ministerial group prepared a document quite critical of Mercosur. The report called for more flexibility by Argentina and Brazil to

allow Mercosur's smaller partners to negotiate with third parties, and called for a correction of existing asymmetries.

The document added that, while it tries to give signals of dynamism, Mercosur is increasingly plagued with uncertainty, which undermines the construction of an integrated market and its opening to other blocs and countries. The report also noted that "there is a reversal of previously achieved commercial progress" and suggests that "lack of enforcement of arbitral resolutions has gravely eroded judicial security and contributed to the generalized disbelief in the integration process." All is not well in Mercosur. End Comment.
Baxter